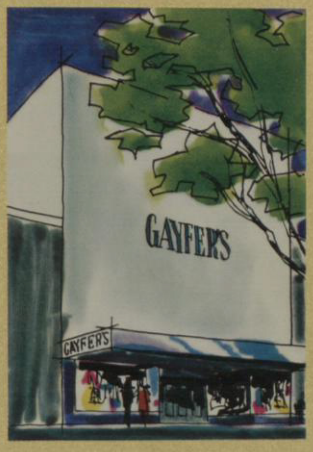
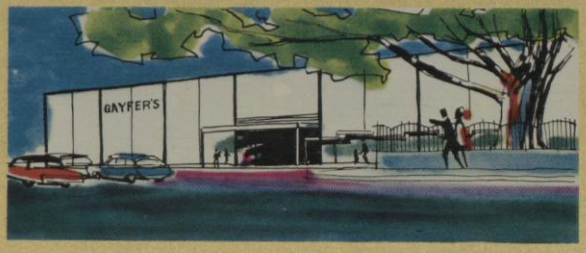
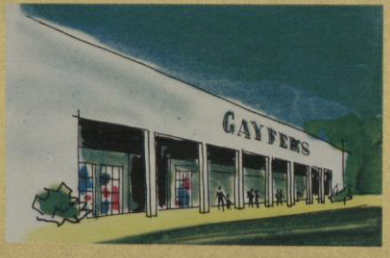
mercantile stores company, inc. annual report/1970







gayfers on the gulf coast

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annual meeting

The Annual Meeting of Stockholders will be held at 11:00 a.m., on Wednesday, May 19, 1971 at 100 West 10th Street, Wilmington, Delaware. All stockholders are cordially invited to attend.

mercantile stores company, inc. *a delaware corporation — incorporated 1919*

directors

John E. Bierwirth
Chairman and a director of National Distillers and Chemical Corporation

F. K. Bradley
Vice-Chairman of the Board Mercantile Stores Company, Inc.

Morgan A. Casey
Vice-President Mercantile Stores Company, Inc.

Ashton Hawkins
Secretary Mercantile Stores Company, Inc.

Harold W. Jockers
Chairman of the Board Mercantile Stores Company, Inc.

F. G. Kingsley
Vice-President and a director of Deering Milliken, Inc.

Gerrish H. Milliken
Vice-President and a director of Deering Milliken, Inc.

Minot K. Milliken
Vice-President, Treasurer and a director of Deering Milliken, Inc.

Roger Milliken
President and a director of Deering Milliken, Inc.

George S. Moore
Limited partner of White, Weld & Co.

G. Burton Pearson, Jr.
Member of the Trust Committee of Wilmington Trust Company, Wilmington, Delaware

R. Nelson Shaw
President Mercantile Stores Company, Inc.

Charles E. Stallings
Vice-President Mercantile Stores Company, Inc.

Ralph S. Stillman
Chairman of the Board and a director of Marine Midland International Corporation

officers

Harold W. Jockers, *Chairman of the Board*

R. Nelson Shaw, *President*

F. G. Kingsley, *Chairman of the Executive Committee*

F. K. Bradley, *Vice-Chairman of the Board*

Frederick W. Bleckwenn, *Vice-President*

Morgan A. Casey, *Vice-President*

Edward J. Sharkey, *Vice-President*

Charles E. Stallings, *Vice-President*

William G. Stubenvoll, *Vice-President*

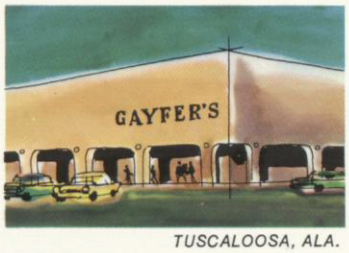
Leon F. Winbigler, *Vice-President*

William A. Heineman, *Treasurer*

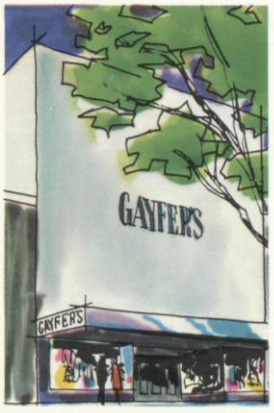
R. S. Kizer, *Controller*

Ashton Hawkins, *Secretary*

JACKSON, MISS.

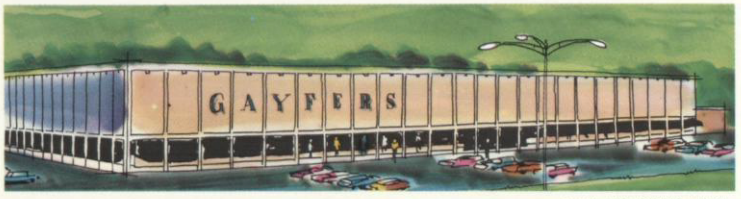


TUSCALOOSA, ALA.

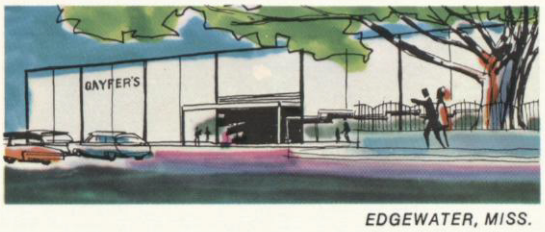


DOWNTOWN — MOBILE, ALA.

SPRINGDALE — MOBILE, ALA.



TALLAHASSEE, FLA.



EDGEWATER, MISS.

PENSACOLA, FLA.

	1970 (Year Ended Jan. 31, 1971)	1969 (Year Ended Jan. 31, 1970)
Operating Results		
Net Sales	**$353,464,000**	$318,353,000
Sales Increase Percentage	**11.0%**	11.5%
Income Before Income Taxes	**30,380,000**	28,322,000
Percent To Sales	**8.6%**	8.9%
Net Income Before Extraordinary Item	**15,680,000***	13,562,000
Percent To Sales	**4.4%**	4.3%
Per Common Share		
Net Income Before Extraordinary Item	**$5.32***	$4.60
Dividends	**1.40**	1.40
Cash Flow	**7.56**	6.26
Financial Position		
Working Capital	**$86,692,000**	$57,618,000
Ratio Of Current Assets To Current Liabilities	**3.25**	2.76
Receivables — Net	**41,026,000**	26,839,000
Merchandise Inventories	**57,975,000**	50,321,000
Property and Equipment — Net	**63,577,000**	56,500,000
Total Assets	**188,836,000**	146,908,000
Long Term Debt	**37,268,000**	14,102,000
Stockholders' Equity	**109,894,000**	97,334,000
Per Common Share	**37.28**	33.02
Ratio Of Net Income Before Extraordinary Item To Invested Capital	**15.1%**	14.6%
Stores At End of Year	**66**	62
Total Square Feet	**5,656,000**	5,134,000

** In addition to earnings shown above for 1970, an extraordinary gain on the sale of land was realized in the net amount of $1,007,000 or 34¢ per share.*

April 15, 1971

To Our Stockholders:

Your Company again set new records in:

Sales

$353,464,000, an increase of 11%.

Net Earnings

$15,680,000, or $5.32 per share, 16% higher than the $13,562,000, or $4.60 per share, earned in the prior year. In addition, $1,007,000 (34¢ per share) was realized from the sale of land not required in the business.

As we begin the new retailing year, we look back with pride on that which has been accomplished, and ahead with a realization of what yet remains to be done — secure in the knowledge that the Company's first half century has laid well the foundations for our continued growth, but aware that the most impressive expansion in the Company's history still lies before us.

We know that in large measure our progress has been due to our adherence to the fundamentals of retailing (as we visualize them), changing, molding and improving them little by little over the years to fit the particular needs of our customers and our stores. We are now benefiting from the cumulative effect of our efforts.

On the following pages, we dwell upon the results of this past year. It is more than appropriate therefore, at this juncture, to reflect upon the new year.

Our expansion will continue at a slightly quicker pace with the opening of 5 stores, about 630,000 square feet compared with the 4 stores opened last year, which had about 522,000 square feet. The pre-opening and start-up expenses should affect earnings to about the same degree as last year's expansion. We estimate that these costs will approximate $1,000,000.

We should point out that the stores which opened last year will help the Company profit in 1971.

The investment tax credit which helped our earnings this past year has been exhausted. The loss of the investment tax credit will be largely offset by the elimination of the tax surcharge which expired on June 30, 1970.

In December of last year, we borrowed $25,000,000 in the public market for our continued expansion. The interest costs associated with this debt will have an effect on our earnings in the new year.

We are continuing the practice of devoting a section of this report to bring you up to date on a particular division of the Company. We are proud of our Gayfer division which, since its acquisition by us in 1950, has been expanding along the Gulf Coast, under the initial dynamic leadership of Mr. Ronald W. Ferguson and continuing under the exciting and aggressive management of Mr. Fred J. Bostrom.

We have benefited from the loyalty of our employees, the resourcefulness of our suppliers and the continued confidence of our customers. We thank them all.

Respectfully submitted,

Harold W. Jockers, *Chairman of the Board*

R. Nelson Shaw, *President*

sales

For the fiscal year ended January 31, 1971, sales totaled $353,464,000, another record for the Company, representing an increase of 11% over the previous year's sales of $318,353,000.

Units opened for a full two-year period showed a gain of 5.9%.

Of the 66 stores in operation at the end of the year, only 16 are located in central downtown shopping areas. Of the 50 stores outside "downtown" areas, most are in suburban shopping centers and the balance in small towns. Sales outside the central downtown shopping areas accounted for 69% of all sales.

earnings

Net income from normal operations continued its upward climb reaching a new high of $15,680,000. Earnings per share were $5.32 versus the $4.60 earned in the previous fiscal year, an increase of 16%.

When we compare per share earnings year to year, we must remember that the Federal income tax surcharge was lower in this latest fiscal year, increasing per share earnings by 33¢.

Per share earnings were further helped by an investment tax credit which amounted to $395,000, or 13¢ per share. The investment tax credit for the prior year was $215,800, or 7¢ per share.

Pre-tax earnings as a percent of sales for the latest fiscal year were 8.6%, a drop from the 8.9% recorded for the previous year, the decrease being attributed mainly to the new stores opened this past year.

During the year, certain excess land held by the Company was disposed of resulting in a net extraordinary gain of $1,007,000, or 34¢ per share.

dividends

The Company made no change in the dividend rate during the year, continuing it at $1.40 per share.

The quarterly dividend payment of 35¢ per share resulted in a pay-out of $4,127,000 for the year.

The Company believes that the modest dividend policy followed has permitted it to undertake a broader expansion program that would not have been possible otherwise.

debt

For the first time in its history, the Company went into the public market with a debt issue in order to provide some of the capital necessary for its

NET SALES AND NET EARNINGS*

* NOT INCLUDING EXTRAORDINARY ITEMS.

planned growth. Debentures due December 1, 1995, totaling $25,000,000, at an interest rate of 8.7%, were sold during December. Under the terms of the Indenture, annual sinking fund payments of $1,250,000 commencing December 1, 1976, will retire 95% of the issue prior to maturity. The Company may increase the sinking fund payment in any year by an amount not exceeding $1,250,000. The Company has the option to redeem the notes at prices set forth in the Indenture except that, prior to December 1, 1980, no redemption may be made directly or indirectly from borrowings having an interest cost less than 8.7%.

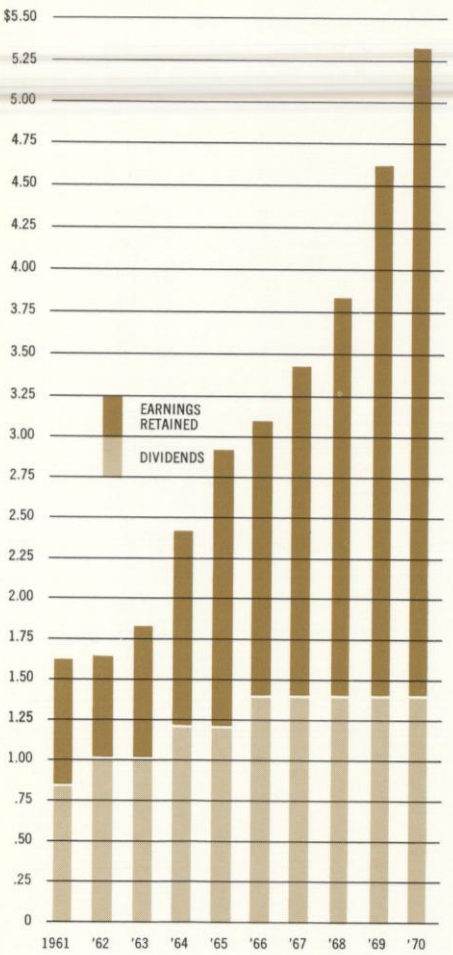
As a result of this public issue, long term debt increased to $37,268,000 at year end, as follows:

	January 31, 1971	*January 31, 1970*
8.70% Sinking Fund Debentures due 1995	$25,000,000	$ -0-
5⅛% Notes due 1978 — $333,000 due annually to 1977 with $2,500,000 due December 1, 1978	4,503,000	4,836,000
4-6⅛% Mortgage Notes — generally payable quarterly over the life of the mortgage	7,765,000	9,266,000
	$37,268,000	$14,102,000

The Indenture contains a restriction on the payment of dividends but the Company believes that it will have no effect on the dividend policy as followed during the past several years. As of January 31, 1971, $25,060,000 was free of this restriction.

During the year, we borrowed $10,000,000 under the Credit Agreement with First National City Bank, but this was repaid from the proceeds of sale of the Debentures. The Credit Agreement with First National City Bank remains in effect until January 31, 1973 and permits us to borrow up to $40,000,000, if required. Under the terms of repayment, any such sum borrowed up to $25,000,000 would be payable within 4 years after said January 31, 1973, in equal quarterly payments, and the balance at the end of said 4 years.

EARNINGS, DIVIDENDS AND RETAINED EARNINGS PER SHARE OF STOCK



additions and improvements to property and equipment

Expenditures for capital improvements rose sharply in 1970 as had been expected with the implementation of the expansion program planned for several years. Total expenditures amounted to $14,234,000, with the major portion being allocated to the 4 new stores opened during the year

as well as for the initial costs of the 5 new stores in 1971, which are further described under *"expansion"*.

Spending will rise substantially in 1971 as well. Present expectations are that we will spend approximately $20,000,000.

Depreciation (on a straight line basis) increased by $569,000 to $5,182,000 while repairs totaled $1,361,000, slightly less than the $1,448,000 for the prior year. Both items are charged against current operations.

leases

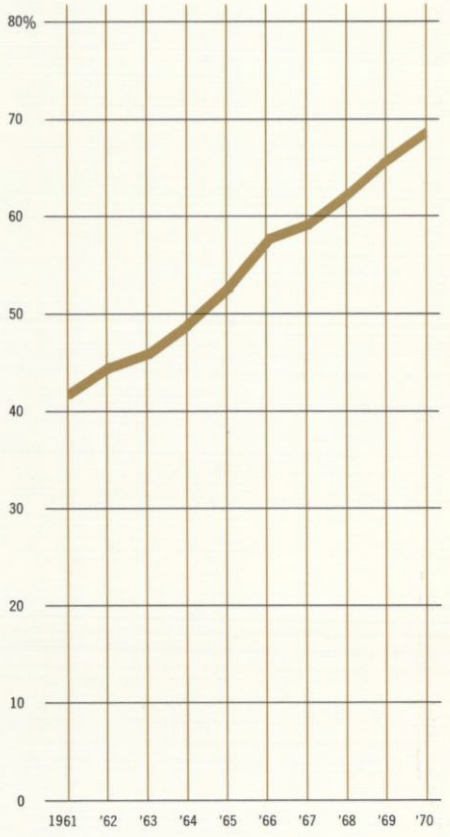
The Company leases 45 of its stores, owns 14 stores (of which four are located on leased sites) and partly owns and partly leases 7 stores.

At year-end, we had in effect 109 leases with annual minimum rentals of $3,839,000. Most leases also require the Company to pay taxes and other expenses, and in some cases additional rentals based on percentages of sales. In the normal course of events, leases are renewed or replaced by leases on other premises.

A summary of the lease commitments is as follows:

Expiring During Fiscal Years Ending January 31	*Number of Leases*	*Minimum Annual Rentals*
1972-74	21	$ 198,000
1975-77	30	576,000
1978-82	20	466,000
1983-87	11	785,000
After 1987	27	1,814,000
	109	$3,839,000

SUBURBAN STORE SALES
% OF TOTAL SALES



expansion

As we have previously reported, the Company has a substantial expansion program planned for the next several years. During the year, 4 stores were opened as follows:

Location	*Square Footage*	*Opening Date*
Columbia, South Carolina	132,000	February 26, 1970
Tallahassee, Florida	90,000	March 26, 1970
Terre Haute, Indiana	150,000	August 13, 1970
Jackson, Mississippi	150,000	July 16, 1970
	522,000	

We are well pleased with their initial reception.

In 1971, we will add 5 stores. They are:

Location	*Square Footage*	*Opening*
Guelph, Ontario, Canada	25,000	March, 1971
Nashville, Tennessee	135,000	August, 1971
Aurora (Denver), Colorado	135,000	August, 1971
Lexington, Kentucky	148,000	October, 1971
Pensacola, Florida	190,000	July, 1971

The small store in Guelph is our fifth store in Canada.

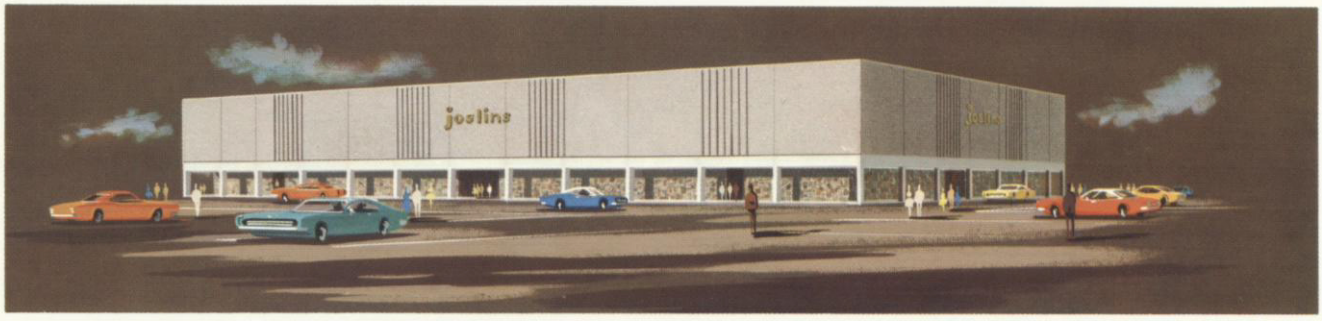
We plan to close a small store (13,300 sq. ft.) in Aurora when we open the new store in that area.

The Lexington and Pensacola stores are second units for two areas considered suburban. Our first Pensacola store was opened in 1956, but the first Lexington unit was opened only 3½ years ago in 1967.

Even greater expansion for 1972 is beyond the drawing board stage and, in most cases, construction contracts have been let.

PENSACOLA, FLORIDA

NASHVILLE, TENNESSEE



AURORA (DENVER), COLORADO

LEXINGTON, KENTUCKY

The program for 1972 includes:

NEW STORES	*Square Footage*
Toledo, Ohio	190,000
Cincinnati, Ohio	190,000
Louisville, Kentucky	190,000
RELOCATION	
Fargo, North Dakota	90,000

ENLARGEMENTS

Two enlargements are planned, one in Nashville, Tennessee and the other in Kansas City, Missouri.

It is possible that a fourth new unit will be added to the 1972 schedule.

On January 31, 1970, your Company had 5,134,000 square feet of space in store buildings, excluding warehouse facilities. At the end of the year which just closed, we had added 522,000 sq. ft., bringing the total at year-end to 5,656,000.

Planned footage at the end of the new year will rise to 6,280,000 which includes elimination of the small store in Aurora, Colorado.

The store in Pueblo, Colorado, heretofore operated as a separate division, has been combined with the Joslin division and will be under the control and supervision of the Denver headquarters. At year-end, we operated 17 divisions with 62 stores in the United States and 4 in the Province of Ontario, Canada.

pension and profit sharing plans

Costs continued to increase for the Pension and Profit Sharing Plans, which the Company considers vital to the maintenance of a high level of employee morale.

The Company contributed $1,456,000 to the Pension Plan and $1,419,000 to the Savings and Profit Sharing Plan. Pension costs are funded currently.

Employees reaching age 25 with two years service are eligible to join both plans.

The Pension Plan is non-contributory. All employees earning over $3,000 per year are automatically enrolled.

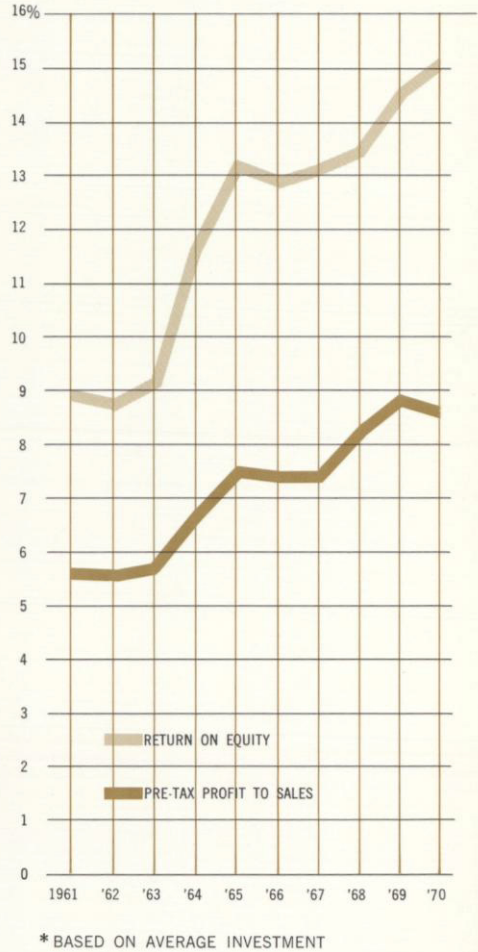
The employee must indicate his desire to join the Savings and Profit Sharing Plan since a requirement of the plan is that the employee contribute 2, 4, 6, 8 or 10% of his earnings. The Company contribution is divided

among the members of the plan based upon their contribution up to 6% of their earnings. In this latest year, each participant received 80¢ for each $1.00 contributed. The Company contribution is invested in Mercantile Stores common stock purchased on the open market.

The Pension Plan, managed by the First National City Bank, as Trustee, had a market value of $9,378,000 at year end. During 1971, there will be 4,300 members in this plan.

The market value of the Savings and Profit Sharing Plan amounted to $32,802,000 at January 31, 1971. This plan, under the management of Chemical Bank, has about 5,225 participants.

PERCENTAGE OF PRE-TAX PROFIT TO SALES AND RETURN ON EQUITY*



*BASED ON AVERAGE INVESTMENT

current assets

RATIO

The proceeds from the sale of debentures, largely unspent as yet, increased year-end net current assets from $57,618,000 to $86,692,000. The year-end current ratio was 3.25 compared to 2.76 at the close of the previous year.

RECEIVABLES

Although credit sales rose to $158,000,000, they continued to represent a declining percentage of total sales, constituting 44.7%, a drop of 2.1% from last year. Our experience on bad debt losses continued to be minimal, well under 1%.

Receivables were as follows:

	January 31, 1971	*January 31, 1970*
Customer Accounts		
Regular Retail	$ 9,167,000	$ 9,294,000
Installment — not sold	935,000	950,000
Equity in accounts sold (uncollected balances of $38,571,000 and $34,415,000 respectively)	31,857,000	17,447,000
Other Accounts	1,748,000	1,608,000
	43,707,000	29,299,000
Less—Reserve for doubtful accounts	2,681,000	2,460,000
	$41,026,000	$26,839,000

INVENTORIES AND SHRINKAGE

Inventories were well-balanced, increasing by $7,654,000 of which $3,145,000 was for the four new stores.

Over the years, shrinkage has been well-controlled, comparing favorably with other good retailers; 1970 was no exception to this pattern.

cash flow

Higher earnings and depreciation primarily contributed to the increase of $3,828,000 in cash flow over the previous year. On a per share basis, the current year cash flow amounted to $7.56.

Cash flow consisted of:

Net Income—normal	$15,680,000
Net Income—extraordinary	1,007,000
Depreciation	5,182,000
Deferred Income Tax	425,000
	$22,294,000

Cash flow was more than sufficient to pay the dividends, debt repayments and capital expenditures incurred during the year.

stockholders' equity

The stockholders' ownership in the net assets of the Company rose to $109,894,000, which resulted in a book value of $37.28 per share at year-end.

executive changes

Mr. G. Burton Pearson, Jr., a Director since 1968, has indicated his desire, since his retirement from the Wilmington Trust Company, to relinquish his position as Director effective with the next Annual Meeting of the Stockholders. Although his tenure was of short duration, his contribution will be lasting.

Mr. William W. Geddes, President and Chief Executive Officer of the Wilmington Trust Company, has agreed, if elected, to assume that Directorship. Mr. Geddes, 51, joined the Wilmington Trust in 1941, served in the Navy during World War II, and rejoined the bank after the close of hostilities. He held a succession of posts in the bank: Assistant Secretary, Assistant Vice-President, Vice-President, Executive Vice-President, and then in 1969, was elected President. Recently, he was named Chief Executive Officer as well.

Mr. Geddes is a graduate of Hotchkiss School, Connecticut and received his B.A. in Economics from Swarthmore College in 1941.

Mr. Ronald W. Ferguson, President of the Jones Store Company, felt that the responsibilities inherent in his duties, managing one of the two largest divisions in the Company, as well as his plans for greater expansion in the Kansas City area, made it necessary for him to be relieved of his duties as Corporate Vice-President. The Board reluctantly accepted his decision.

auditors' report

To the Stockholders and Board of Directors of
Mercantile Stores Company, Inc.:

We have examined the consolidated balance sheets of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1971 and 1970, and the related statements of consolidated income, retained earnings and source and disposition of funds for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1971 and 1970, and the results of their operations and the source and disposition of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

New York, N. Y.,
April 1, 1971.

For the years ended January 31, 1971 and 1970

	1971	1970
NET SALES	**$353,464,000**	$318,353,000
Deduct:		
Cost of goods sold and expenses, exclusive of items listed below	**300,605,000**	270,584,000
Depreciation and amortization	**5,182,000**	4,613,000
Rentals — see page 7	**4,533,000**	3,915,000
Pension and profit sharing — see page 10	**2,875,000**	2,536,000
Interest	**3,186,000**	2,503,000
Taxes —		
Federal income	**14,700,000**	14,760,000
Other	**6,703,000**	5,880,000
Total	**337,784,000**	304,791,000
Income before extraordinary item	**15,680,000**	13,562,000
Gain on sale of land, less Federal income taxes of $304,000	**1,007,000**	—
Net Income	**$ 16,687,000**	$ 13,562,000
Earnings per share		
Before extraordinary item	**$5.32**	$4.60
Extraordinary item	**.34**	—
Net Income	**$5.66**	$4.60

In the annual reports to the Securities and Exchange Commission, the cost of goods sold, central buying and occupancy expenses are $241,855,000 and $218,513,000 respectively, for the years ended January 31, 1971 and 1970 and selling, general and administrative expenses are $78,659,000 and $69,658,000 respectively.

statements of consolidated retained earnings and source and disposition of funds

For the years ended January 31, 1971 and 1970

Retained Earnings	**1971**	1970
Balance, beginning of year	**$ 85,785,000**	$ 76,350,000
Net Income	**16,687,000**	13,562,000
	102,472,000	89,912,000
Dividends — $1.40 per share, in each year	**4,127,000**	4,127,000
Balance, end of year	**$ 98,345,000**	$ 85.785.000

Source and Disposition of Funds

Sources:		
Net income	**$ 16,687,000**	$ 13,562,000
Depreciation and other non-cash charges	**5,607,000**	4,904,000
Borrowings	**25,000,000**	116,000
Total	**$ 47,294,000**	$ 18,582,000

Dispositions:		
Dividends	**$ 4,127,000**	$ 4,127,000
Property additions — Net	**12,259,000**	7,970,000
Repayment of debt	**1,834,000**	1,746,000
Increase in working capital	**29,074,000**	4,739,000
Total	**$ 47,294,000**	$ 18,582,000

January 31, 1971 and 1970

ASSETS

Current Assets:	**1971**	1970
Cash, including certificates of deposit	**$ 22,241,000**	$ 11,154,000
Receivables — see page 11	**41,026,000**	26,839,000
Inventories — at lower of cost or market-retail method	**57,975,000**	50,321,000
Investments — at cost (approximately market)	**2,459,000**	1,275,000
Prepayments	**1,558,000**	819,000
Total Current Assets	**125,259,000**	90,408,000

Property and Equipment, at cost:		
Land	**9,943,000**	10,775,000
Buildings and improvements	**51,642,000**	47,026,000
Fixtures	**39,425,000**	33,432,000
	101,010,000	91,233,000
Less Accumulated depreciation	**37,433,000**	34,733,000
Property and Equipment — Net	**63,577,000**	56,500,000
Total	**$188,836,000**	$146,908,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	**1971**	1970
Accounts payable	**$ 23,399,000**	$ 18,659,000
Accrued expenses	**10,286,000**	9,466,000
Federal income taxes	**3,428,000**	2,948,000
Debt due within one year	**1,454,000**	1,717,000
Total Current Liabilities	**38,567,000**	32,790,000
Long Term Debt — see page 5	**37,268,000**	14,102,000
Deferred Federal Income Taxes	**3,107,000**	2,682,000
Stockholders' Equity:		
Common stock — $1.83 1/3 par value Authorized 2,950,998, issued 2,947,818 shares (after deducting 3,180 treasury shares)	**5,404,000**	5,404,000
Capital surplus	**6,145,000**	6,145,000
Retained earnings — see page 6	**98,345,000**	85,785,000
Stockholders' Equity	**109,894,000**	97,334,000
Total	**$188,836,000**	$146,908,000

Year ended January 31	1971	1970	1969
Operating Results			
Net Sales	**$353,464,000**	$318,353,000	$285,585,000
Income before Federal income taxes	**30,380,000**	28,322,000	23,766,000
Percent to sales	**8.6**	8.9	8.3
Net income before extraordinary item	**15,680,000**	13,562,000	11,351,000
Percent to sales	**4.4**	4.3	4.0
Extraordinary item	**1,007,000**	—	—
Dividends paid	**4,127,000**	4,127,000	4,127,000
Per Common Share			
Net income before extraordinary item	**$ 5.32**	$ 4.60	$ 3.85
Extraordinary item	**.34**	—	—
Dividends	**1.40**	1.40	1.40
Cash Flow	**7.56**	6.26	5.46
Financial Position			
Working capital	**$ 86,692,000**	$ 57,617,000	$ 52,879,000
Ratio of current assets to current liabilities	**3.25**	2.76	2.67
Receivables — net	**41,026,000**	26,839,000	29,263,000
Merchandise inventories	**57,975,000**	50,321,000	46,017,000
Property and equipment — net	**63,577,000**	56,500,000	53,143,000
Total assets	**188,836,000**	146,908,000	137,732,000
Long term debt	**37,268,000**	14,102,000	15,731,000
Retained earnings	**98,345,000**	85,785,000	76,350,000
Stockholders' equity	**109,894,000**	97,334,000	87,899,000
Per common share	**37.28**	33.02	29.82
Number of shares outstanding	**2,947,818**	2,947,818	2,947,818
Stores at end of year			
Number	**66**	62	61
Total square feet	**5,656,000**	5,134,000	5,005,000

1968	1967	1966	1965	1964	1963	1962
$256,550,000	$234,267,000	$220,610,000	$207,261,000	$192,409,000	$183,840,000	$175,821,000
18,731,000	17,046,000	16,265,000	13,979,000	10,923,000	10,105,000	9,893,000
7.3	7.3	7.4	6.7	5.7	5.5	5.6
10,182,000	9,074,000	8,600,000	7,132,000	5,370,000	4,888,000	4,818,000
4.0	3.9	3.9	3.4	2.8	2.7	2.7
1,387,000	—	—	—	—	—	—
4,127,000	4,127,000	3,537,000	3,537,000	2,948,000	2,948,000	2,432,000
$ 3.45	$ 3.08	$ 2.92	$ 2.42	$ 1.82	$ 1.66	$ 1.63
.47	—	—	—	—	—	—
1.40	1.40	1.20	1.20	1.00	1.00	.82½
5.39	4.30	4.06	3.61	2.97	2.74	2.67
$ 47,332,000	$ 44,768,000	$ 42,075,000	$ 39,567,000	$ 37,533,000	$ 37,291,000	$ 35,298,000
2.84	2.83	2.57	2.67	2.58	2.30	2.93
20,621,000	22,156,000	24,701,000	21,847,000	20,556,000	27,226,000	15,778,000
39,757,000	33,325,000	32,179,000	30,124,000	29,666,000	28,927,000	27,071,000
48,844,000	44,682,000	42,556,000	41,239,000	40,882,000	39,766,000	38,021,000
121,915,000	113,955,000	111,393,000	104,447,000	102,129,000	105,642,000	91,617,000
13,526,000	14,572,000	15,858,000	16,177,000	17,407,000	18,616,000	17,080,000
69,126,000	61,684,000	55,705,000	51,674,000	48,079,000	45,657,000	43,717,000
80,675,000	73,234,000	67,255,000	63,223,000	59,629,000	57,206,000	55,266,000
27.37	24.84	22.82	21.45	20.23	19.41	18.75
2,947,818	2,947,818	2,947,818	2,947,818	2,947,818	2,947,818	2,947,818
61	60	58	60	61	61	61
4,942,000	4,630,000	4,427,000	4,447,000	4,150,000	4,113,000	3,936,000

VILLAGE
SHOP

Founded in 1879 by Charles John Gayfer in Mobile, Alabama, the original store was just a small establishment dedicated to the task of providing the discriminating ladies of "Old Mobile" with the latest in imported laces, crisp calicos and blooming bonnets. As the store gained wide acceptance among the gentry, Mr. Gayfer found it necessary to begin a modest expansion program. He moved from his first location on Dauphin Street to a larger building on St. Emanuel Street (which is still a part of the main Downtown store).

Gayfer's prospered, passing down thru the family . . . and thru history.

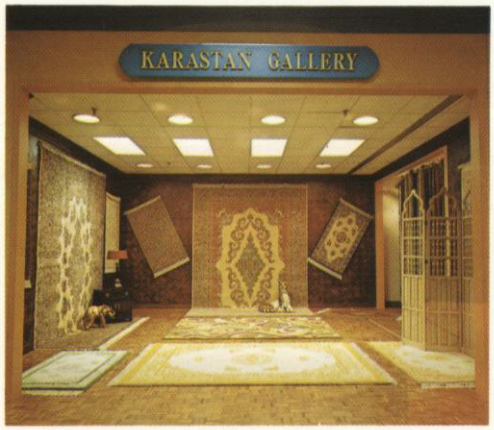
Desiring to see Gayfer's prosper even more, the owners sold the business to Mercantile Stores Company, Inc., which immediately undertook an expansion program doubling the size of the store.

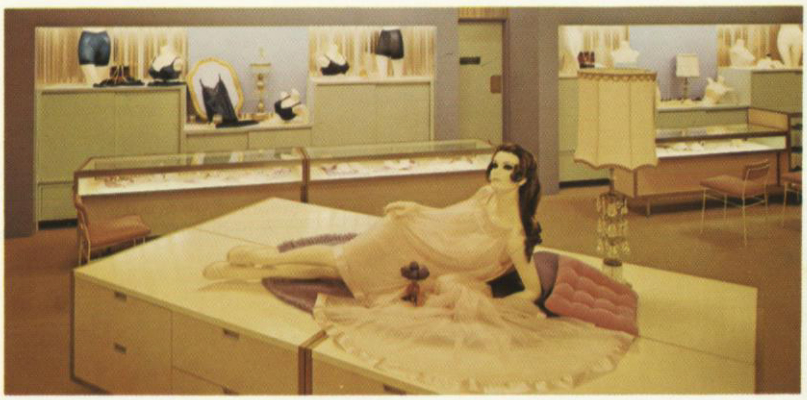
Seeing the great potential in neighboring Florida, Gayfer's opened the first suburban shopping center in Pensacola in 1956. This successful move was followed a few years later with the opening of Mobile's first shopping center department store, which has since doubled in size, in Springdale Plaza. In 1963, Gayfer's moved into Mississippi, opening a store in Edgewater Park, overlooking the Gulf of Mexico. The Tuscaloosa, Alabama store followed in 1969. Each of these stores has had phenomenal growth and each is the dominant store in its area.

In 1970 Gayfer's continued its growth with the opening of two more stores; one in Tallahassee, Florida and the other in Jackson, Mississippi, both capital cities.

Construction of the eighth store to carry the Gayfer name is well underway in a second suburban location in Pensacola's Cordova Mall Shopping Center. This store is expected to open in the early Fall of 1971.

Plans are well along to double the size of the Edgewater Park store and sites are under consideration in

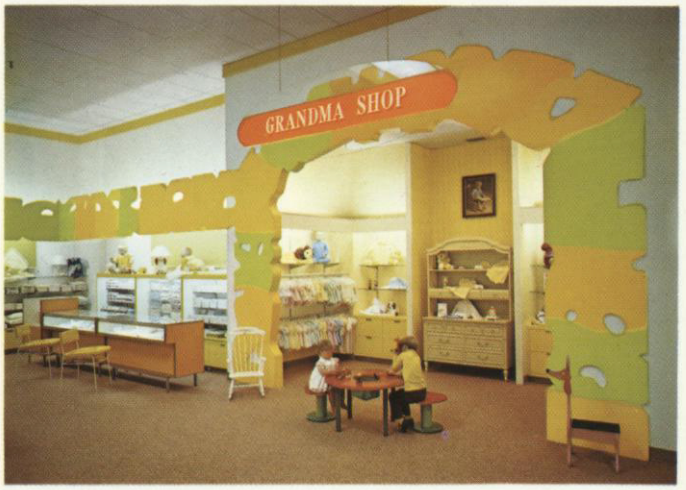




other areas so that Gayfer's will continue to be the dominant department store group in the Gulf South.

Gayfer's suburban locations are widely separated ranging up to 260 miles from Mobile. The areas they serve contain greatly varied social and occupational groups; some are resort areas and are partly dependent on tourism, others on military and manufacturing activities, while others on state government and university complexes . . . with traditional Southern customs influencing each area, to some degree.

Each store is operated as an equal and complete store, not as a branch of the parent Downtown store.



Merchandise policies and lines are controlled by Mobile management; merchandise information is exchanged and compared, but each unit has its own department managers who have freedom to select items or styles adapted to its own locale.

Department stores are generally judged by the lines of merchandise they carry. Gayfer's reputation among manufacturers is such that practically every quality brand or item is offered to it.

The cosmetic department is usually recognized as the chief criterion for judging prestige lines carried by a department store. The Gayfer stores are on par with the other great stores of America in offering a representative selection of the finest cosmetic and fragrance lines. This same selectivity extends to many other types of merchandise.

It has been said that no store, specialty shop or department store, carries the extensive, world-wide selection that Gayfer's does in the Gulf South area.

While featuring America's leading nationally known brands, Gayfer's also carries a large selection of popularly priced merchandise competitive with chain and discount stores on identical quality. But, Gayfer's is proud of its reputation and sells no seconds or irregulars.

In the twenty years since Mercantile Stores acquired Gayfer's in 1950, the volume has increased many, many times. The Gayfer group is able to move quickly, giving it merchandising flexibility, while retaining all the advantages and strengths of the large chains.

In each of its cities, its store managers are leaders in civic and charitable activities.

Gayfer's was one of the founders of, and continues to be active in, the national America's Junior Miss Pageant, headquartered in Mobile.

This past year Gayfer's was honored by being presented the Bonne Bell Citation for Community Services and especially, for its humanitarian efforts during Hurricane Camille in 1969.

Gayfer's — a leader in the Gulf South.

Bacon's *Established 1845*
Louisville, Kentucky
H. Marvin Dorethy, President
- Downtown Louisville
- St. Matthew's
- Shively
- Jeffersonville, Ind.

Castner-Knott *Established 1898*
Nashville, Tennessee
James C. Lovell, President
- Downtown Nashville
- Green Hills
- Donelson
- Shelbyville
- Harding Mall
- Bowling Green, Ky.

O. J. DeLendrecies *Established 1879*
Fargo, North Dakota
Ray Klein, President
- Downtown Fargo

Gayfer's *Established 1879*
Mobile, Alabama
Fred J. Bostrom, President
- Downtown Mobile
- Springdale
- Pensacola, Fla.
- Tallahassee, Fla.
- Edgewater, Miss.
- Jackson, Miss.

Glass Block *Established 1887*
Duluth, Minnesota
Robert W. Tyler, President
- Downtown Duluth

Hennessy's *Established 1885*
Butte, Montana
Milo D. Skordal, President
- Downtown Butte
- Helena

Jones *Established 1887*
Kansas City, Missouri
Ronald W. Ferguson, President
- Downtown Kansas City
- Blue Ridge
- Independence
- Prairie Village, Kans.
- Pittsburg, Kans.
- Overland Park, Kans.

Joslin's *Established 1873*
Denver, Colorado
Donald R. Chabot, President
- Downtown Denver
- Downtown Pueblo
- Englewood
- Lakewood
- Greeley
- Boulder
- Aurora
- Villa Italia

Lazarus *Established 1889*
Wilkes-Barre, Pennsylvania
Russell W. Lackie, President
Downtown Wilkes-Barre

Lion *Established 1857*
Toledo, Ohio
Leon F. Winbigler, President
Downtown Toledo
Westgate

McAlpin's *Established 1852*
Cincinnati, Ohio
William G. Stubenvoll, President
Downtown Cincinnati
Kenwood
Western Hills
Cherry Grove
Middletown
Lexington, Ky.

Montgomery Fair *Established 1868*
Montgomery, Alabama
Stephen E. Maxwell, President
Suburban Montgomery
Eastbrook
Opelika
Tuscaloosa

Peoples *Established 1888*
Tacoma, Washington
Henry W. Powell, President
Downtown Tacoma
Yakima
Lakewood
Port Angeles
Wenatchee
Olympia (Lacey)

The Right House *Established 1843*
Hamilton, Ontario, Canada
John R. Barrett, President
Downtown Hamilton
Brantford
Galt
St. Catharines
Guelph

Root's *Established 1856*
Terre Haute, Indiana
Frank C. Schrohe, President
Downtown Terre Haute
Honey Creek
Sullivan
Robinson, Ill.

J. B. White *Established 1874*
Augusta, Georgia
Paul A. Martsolf, President
Downtown Augusta
National Hills
Aiken, S. C.

J. B. White *Established 1874*
Columbia, South Carolina
Thomas E. Hale, President
Richland Mall
Dutch Square

Represented in the markets by:

Mercantile Stores Company, Inc. (N. Y.)
128 W. 31st Street
New York, N. Y. 10001

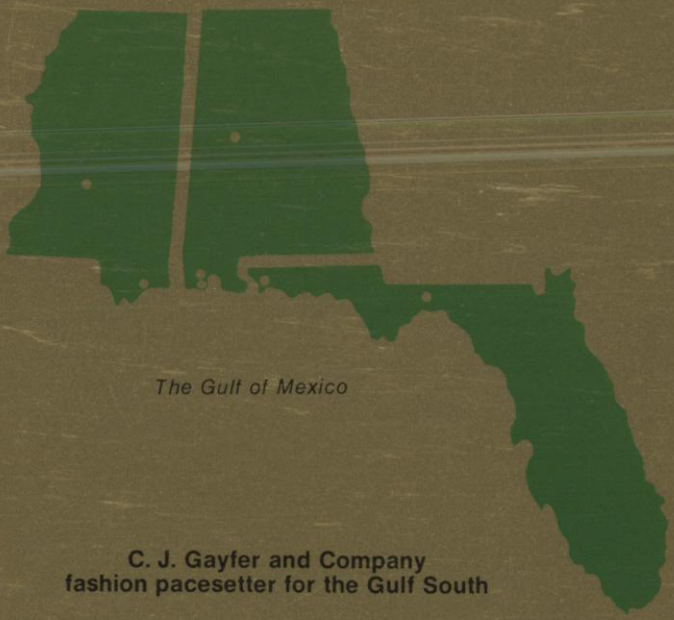
Cable Address: Merstore

Stock Transfer Agent:

Chemical Bank
20 Pine Street
New York, N. Y. 10015

Registrar of Stock:

First National City Bank
399 Park Avenue
New York, N. Y. 10022



The Gulf of Mexico

C. J. Gayfer and Company
fashion pacesetter for the Gulf South